

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 13

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: June 6, 2001

INFORMATION: X

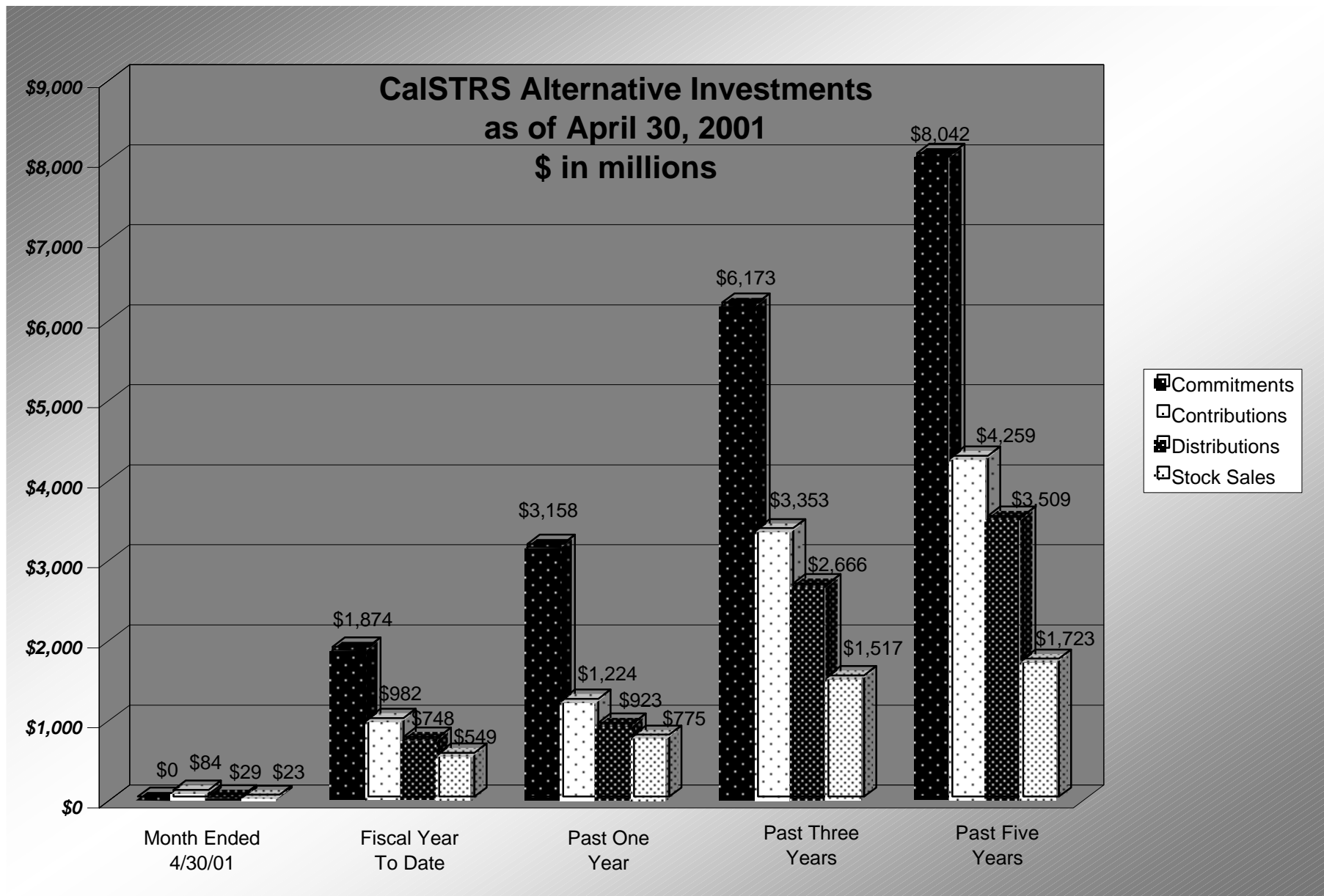
PRESENTER(S): Réal Desrochers

The table below contains Alternative Investment activity for the month of April 2001 and historical information for selected time periods.

	Month Ended 4/30/01	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 0	\$ 1,805,321,000	\$ 3,068,931,000	\$ 5,932,166,000	\$ 7,753,491,917
Co-Investments	0	68,632,274	88,632,274	161,132,270	208,132,270
Secondaries	0	0	0	80,067,245	80,067,245
	\$ 0	\$ 1,873,953,274	\$ 3,157,563,274	\$ 6,173,365,515	\$ 8,041,691,432
<u>Contributions:</u>					
Partnerships	\$ 60,408,948	\$ 905,383,043	\$ 1,140,877,391	\$ 3,137,732,418	\$ 3,984,094,801
Co-Investments	20,000,000	65,339,474	70,825,070	113,991,755	160,991,755
Secondaries	29,000	3,435,252	4,272,252	74,105,836	74,105,836
Mgmt. Fee (Outside)	3,301,080	7,576,793	7,744,743	26,906,346	36,448,640
	\$ 83,739,028	\$ 981,734,562	\$ 1,223,719,455	\$ 3,352,736,355	\$ 4,258,641,031
<u>Distributions:</u>					
Cash	\$ 20,608,686	\$ 264,318,961	\$ 340,850,244	\$ 1,146,336,084	\$ 1,759,791,789
Stock	8,597,741	483,986,821	582,219,197	1,519,714,545	1,748,910,619
	\$ 29,206,427	\$ 748,305,782	\$ 923,069,442	\$ 2,666,050,629	\$ 3,508,702,408
Stock Sales	\$ 23,103,442	\$ 549,134,683	\$ 755,063,565	\$ 1,517,398,743	\$ 1,722,884,434

The chart presented in Attachment 1 illustrates the total amount of capital that CalSTRS has committed and contributed to its 115 limited partnerships and 12 co-investments for the five year period ending April 30, 2001. The chart also illustrates the amount of distributions received and stock sold over the past five years. For the five year period ending April 30, 2001, CalSTRS has received total distributions of over \$3.5 billion, representing 82% of contributed capital.

Attachment 2 provides an executive summary of action taken under delegation of authority for a \$20 million co-investment in Force10 Networks, Inc. It is anticipated that this investment will be funded in two \$10 million increments; \$10 million has been funded to date.



Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
NEA VIII

Force10 Networks, Inc.

Action: Commitment of \$20 million in a co-investment in Force10 Networks, Inc., subject to the successful negotiation of legal terms and conditions. The investment will take the form of \$20 million in preferred stock.

Background: NEA VIII, one of the CalSTRS' largest and long-standing General Partners, is raising \$100 million to invest in Force10 Networks. Force10 Networks has developed a product for the next breakthrough in broadband transmission, the development of 10-gigabit Ethernet (10 GbE) switches. The 10-gigabit Ethernet switch has been selected by the industry as the standard for aggregation switches for fiber based broadband wires for urban office buildings. These switches service the "last mile" of the Internet and would replace the existing "old technology" voice/data switches currently serving urban buildings. The 10 GbE switches will help unclog the current broadband bottleneck in the metropolitan areas.

NEA VIII has offered CalSTRS an opportunity to co-invest \$20 million in this round of financing. NEA and US Venture Partners were the original investors in and creators of Force10 Networks. Worldview Partners and Amerindo have also invested in the company in the past.

The new funds will be used to take the company to a cash flow positive condition.

The CalSTRS co-investment of \$20 million and the additional indirect investment through NEA limited partnerships of \$4.66 million will represent approximately 5.1% ownership interest in Force10 Networks.

Investors: NEA, USVP, Worldview, Sanmina, CalSTRS and Force10 Executives.

Investment Thesis: Force10 Networks is a first to market product that will speed up the Internet “chokepoint”¹ in fiber optics delivered to metropolitan areas. Force10 Networks is expected to have first mover advantage. The product is a carrier (telecom company) class 10-gigabit Ethernet (10GbE) switch/router. The Institute of Electrical and Electronic Engineers (IEEE) is establishing 10GbE as the new standard for switching equipment. The Company has been highly involved in the standard setting process for these switches. All four of the custom designed chips required for this new product have been thoroughly tested. The product is expected to commence shipping in the fourth quarter of 2001. According to references checked, Force10 Networks has developed a top-notch proven management and engineering team led by proven high tech engineers and managers who have had multiple successes in start-ups including Cisco, MMC, and Juniper Networks. The Force10 Networks 10GbE product is expected to be the market leader in this new industry segment.

Policy Compliance: This investment complies with the Alternative Investment Policies, which were approved in April 1999. Positive written recommendations by the Independent Fiduciary (KPMG) and Staff have been documented. The recommendations resulted after investment analysis and due diligence were conducted in a manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit up to \$20 million to Force10 Networks, Inc. CalSTRS’ commitment is subject to the successful negotiation of legal terms and conditions.

¹ Old technology which impedes new technology in the delivery of internet service.

By:

Richard Rose
Principal Investment Officer

Date:_____

Recommended by:

Real Desrochers
Director-Alternative Investments

Date:_____

Approved by:

Christopher Ailman
Chief Investment Officer

Date:_____